

Financial Management Service

Program Summary by Appropriations Account

(Dollars in thousands)

Appropriation	FY 2006	FY 2007		FY 2008		
	Enacted	President's Budget	CR-rate	President's Budget	\$ Change over CR-rate	% Change over CR-rate
Salaries and Expenses	\$233,881	\$233,654	\$233,292	\$235,191	\$1,899	0.8%
Payments	144,135	147,358	147,130	146,465	(665)	(0.5%)
Collections	16,931	17,396	17,367	19,869	2,502	14.4%
Debt Collection	10,162	5,250	5,250	0	(5,250)	(100.0%)
Government-wide Accounting and Reporting	62,653	63,650	63,545	68,857	5,312	8.4%
Subtotal, Financial Management Service	\$233,881	\$233,654	\$233,292	\$235,191	\$1,899	0.8%
Offsetting Collections - Reimbursables	167,770	196,282	196,282	215,179	18,897	9.6%
Total Program Operating Level	\$401,651	\$429,936	\$429,574	\$450,370	\$20,796	4.8%

Explanation of Request

The FY 2008 President's Budget request for Financial Management Service (FMS) includes initiatives to enhance and improve operations. The primary initiatives include (1) Realignment/Restructuring; (2) Capital Assets Refresh; and (3) the Financial Information Reporting Standardization (FIRST) program. The Realignment/Restructuring calls for FMS to relocate and transfer the functions performed at the Hyattsville Regional Operation Center (HROC) to the Kansas City Regional Operations Center (KROC). This addresses several issues with a main focus on continuity of operations and disaster recovery. The Capital Refresh Program will upgrade equipment for the FMS data center relocation to Kansas City. Currently, 73 percent of FMS' capital assets are past their useful life. The FIRST initiative will improve the accuracy and integrity of budgetary and proprietary accounting information both at the agencies and in the central accounting systems. It will

also integrate budgetary accounting and government-wide accounting with the proprietary information in the Financial Report (FR) which will improve the quality and accuracy of the FR. These initiatives are fully funded internally through redirection of resources.

Total resources required to support FMS activities for FY 2008 are \$450,370,000 including \$235,191,000 from direct appropriations and \$215,179,000 from offsetting collections and reimbursable agreements.

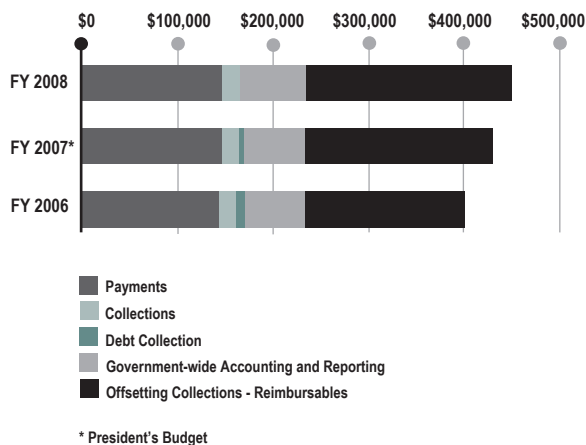
Purpose of Program

FMS plays a key role in supporting the Department of the Treasury's strategic goal of managing the United States Government's finances effectively by operating as the financial manager and principal fiscal agent for the federal government. This role includes managing the nation's finances by collecting money due to the United States, making its payments and performing central accounting functions.

As the government's financial manager, FMS oversees a daily cash flow in excess of \$50 billion, disbursing 85 percent of the federal government's payments, including income tax refunds, Social Security benefits, veterans' benefits and other federal payments to individuals and businesses. FMS also administers the world's largest collection system, collecting approximately \$2.9 trillion in FY 2006. It also provides cash management guidance to Federal Program Agencies (FPAs), maintains the government's accounting books and compiles and publishes government-wide financial information used to monitor the government's financial status. Finally, it serves as the government's central debt collection agency for delinquent non-tax debt.

FMS Funding History

(Dollars in Thousands)



FMS FY 2008 Budget Highlights

(Dollars in thousands)

Appropriation	Amount
FY 2006 Enacted	\$233,881
FY 2007 President's Budget	\$233,654
CR-rate Adjustment	(362)
FY 2007 CR-rate	\$233,292
Changes to base:	
Technical Adjustment to FY 2007 Base due to CR:	(\$2,043)
Base Adjustment	(2,043)
Maintaining Current Levels (MCLs):	\$7,686
Non-Pay Inflation Adjustment	2,079
Pay Annualization	778
Pay Inflation Adjustment	4,829
Non-Recurring Costs:	(\$1,224)
Accounting Architecture	(424)
Workstation Replacement	(800)
Subtotal FY 2008 Changes to Base	\$4,419
FY 2008 Base	\$237,711
Program Changes:	
Program Decreases:	(\$12,013)
Claims Contract Support	(210)
Debt Fee Revenue	(5,250)
Government Financial Reporting System (GFRS)	(533)
Government-wide Accounting and Reporting	(400)
Payments Capital Investments (PCI)	(920)
Enhancement to Clct/Govt-wide Acctg & Reprt	(4,700)
Program Reinvestment:	\$9,493
Realignment/Restructuring Study	2,000
Capital Assets Refresh	1,400
Rlgnmnt to Enhance Clct/Govt-wide Acctg & Reprt	3,700
Financial Info Reprt Standardization (FIRST)	2,393
Subtotal FY 2008 Program Changes	(\$2,520)
Total FY 2008 President's Budget	\$235,191

FY 2008 Budget Adjustments

FY 2007 President's Budget

The FY 2007 President's Budget request for FMS is \$233,654,000.

Adjustments

CR-rate Adjustment -\$362,000 / +0 FTE Adjustment from the FY 2007 President's Budget to reach the FY 2007 Continuing Resolution annualized rate (CR-rate).

Technical Adjustment to FY 2007 Base due to CR

Base Adjustment -\$2,043,000 / +0 FTE Technical adjustment to FY 2007 base due to CR.

Maintaining Current Levels (MCLs)

Adjustments Necessary to Maintain Current Levels +\$7,686,000 / +0 FTE Funds are requested for: FY 2008 cost of the January 2007 pay increase of

\$778,000; proposed January 2008 pay raise of \$4,829,000; and non-labor related items such as contracts, travel, supplies, equipment and GSA rent adjustments of \$2,079,000.

Non-Recurring Costs

Accounting Architecture -\$424,000 / +0 FTE Funding has been identified in Government-wide Accounting and Reporting from prior year Accounting Architecture initiatives.

Workstation Replacement -\$800,000 / +0 FTE A portion of prior year funds from Workstation Replacement initiatives is non-recurred.

Program Decreases

Claims Contract Support -\$210,000 / +0 FTE Funding from improvements in the payments claims activity can be redirected to the Financial Information Reporting Standardization (FIRST) initiative.

Debt Fee Revenue -\$5,250,000 / -56 FTE As a result of projected increased debt revenues, FMS is able to redirect the remaining funds allocated to the debt collection activity without adversely impacting the program.

Government Financial Reporting System (GFRS) -\$533,000 / +0 FTE Funding identified in GFRS will be redirected to the FIRST initiative.

Government-wide Accounting and Reporting - \$400,000 / +0 FTE As a result of efficiencies gained through modernization and a decreased requirement for contractor support for legacy applications, program funds in Government-wide Accounting and Reporting can be redirected.

Payments Capital Investments (PCI) -\$920,000 / +0 FTE Funding in the PCI project will be redirected.

Realignment to Enhance Collections/Government-wide Accounting and Reporting -\$4,700,000 / -61 FTE Due to continued modernization of the Payments function by FMS, there has been a major shift from routine transaction processing to highly complex analytical reviews of data and information relating to trend analysis, comparative analysis, and error resolution along with customer relationship management. Associated dollars and FTE can be redirected from

Payments and be realigned to Collections and Government-wide Accounting and Reporting which will more accurately reflect program requirements.

Program Reinvestment

Realignment/Restructuring Study +\$2,000,000 / +0 FTE As a result of examining the functional distribution of key operations and physical location of employees, capital assets and other property, this initiative will relocate and transfer FMS' Hyattsville Regional Operation Center data center functions to the Kansas City Regional Operations Center. Improved national security, continuity of operations and disaster recovery will be possible by reestablishing critical applications, some which are part of the National Financial Critical Infrastructure, away from the current location. In addition, the safety of FMS' employees will increase as a result of separating primary data center and platforms from operational activities. This initiative is fully funded from redirection of Debt Fee Revenue.

Capital Assets Refresh +\$1,400,000 / +0 FTE FMS needs to "refresh" its capital assets to maintain a healthy and viable enterprise information technology infrastructure. These assets host system applications that support the National Financial Critical Infrastructure and support FMS' mission. Therefore, FMS' must ensure that its systems, assets and software are reliable, as they are used to issue close to a billion payments a year valued at \$1.5 trillion, to collect information to calculate the daily cash position and the cash forecasting needs of the United States Treasury. This initiative is fully funded with redirects from Debt Fee Revenue.

Enhancements to Collections/Government-wide Accounting and Reporting +\$3,700,000 / +48 FTE FMS continued modernization of the payments function has resulted in a major shift from routine transaction processing to highly complex analytical reviews of data and information relating to trend analysis, comparative analysis, error resolution and customer relationship management. Associated dollars and FTE from Payments can be realigned to Collections and Government-wide Accounting and Reporting which will more accurately reflect program requirements.

Financial Information Reporting Standardization (FIRST) +\$2,393,000 / +0 FTE FIRST is designed to move FMS closer to achieving its strategic goal of producing accurate, accessible and timely government-wide financial information and reports that contribute to improved quality of the nation's financial decision making. FIRST can be funded by redirecting: \$533,000 from Government Financial Reporting System, \$1,650,000 from Debt Fee Collection Revenue, and \$210,000 from Claims Contract Support.

Explanation of Budget Activities

Salaries and Expenses

Payments (\$146,465,000 from direct appropriations and \$137,849,000 from reimbursable programs) The Payments activity issues and distributes payments, develops and implements federal payment policy and procedures, promotes the use of electronics in the payment process, and assists agencies in converting payments from paper checks to Electronic Funds Transfer (EFT). This activity controls and provides financial integrity to the payments process through reconciliation, accounting and claims activities. The claims activity settles claims against the United States resulting from federal government checks which have been forged, lost, stolen or destroyed, and collects monies from those parties liable for fraudulent or otherwise improper negotiation of government checks. It also includes processing claims and reclamations for EFT payments.

Collections (\$19,869,000 from direct appropriations) The Collections activity collects revenues needed to operate the federal government through the management of the federal government's collections infrastructure. FMS collected approximately \$2.9 trillion in FY 2006 through a network of more than 9,000 financial institutions. It also manages the collection of federal revenues such as individual and corporate income tax deposits, customs duties, loan repayments, fines and proceeds from leases. FMS establishes and implements collection policies, regulations, standards and procedures for the federal government.

Debt Collection (\$77,330,000 from reimbursable programs) The Debt Collection activity collects

delinquent government and child support debt by providing centralized debt collection, oversight and operational services to Federal Program Agencies (FPAs) and states as required by the Debt Collection Improvement Act of 1996 and related legislation. The services include, but are not limited to, collecting delinquent debts through cross-servicing and offsetting federal payments, providing a database for use as a tool for barring delinquent debtors, providing post-judgment collection, advising and educating agencies towards improving debt management, and referrals to the Department of Justice.

Government-wide Accounting and Reporting (\$68,857,000 from direct appropriations) The function of the Government-wide Accounting and Reporting activity is to maintain the federal government's books and account for its monetary assets and liabilities by operating and overseeing the government's central accounting and reporting system. It also works with federal agencies to adopt uniform accounting and reporting standards and systems and provides support, guidance and training to assist Federal Program Agencies in improving their government-wide accounting and reporting responsibilities. FMS gathers and publishes government-wide financial information which is used in establishing fiscal and debt management policies and is also used by the public and private sectors to monitor the government's financial status.

Legislative Proposals

Payment Transaction Integrity – Allow the federal government to trace and recover federal payments sent electronically to the wrong account. The proposal, which amends 12 U.S.C. 3413, revises an existing exception to the Right to Financial Privacy Act so that improper electronic payments and improperly negotiated Treasury checks can be traced and recovered. This revision will also permit the federal government to verify that the correct party is making electronic payments to or receiving electronic payments from the government.

Eliminate the Ten-Year Limitations Period on Offset – This proposal would eliminate the ten-year limitation on the collection of delinquent non-tax federal debts by administrative offset. Delinquent debts could be collected by offset without regard to any statutory, regulatory or administrative limitation on the period within which debts may be collected. The proposed change would allow for the collection by offset of other federal debts consistent with the current law for student loans.

Assessment of the Transaction Costs for the Referral of Tax Debts from the IRS to the Financial Management Service for Debt Collection Levy – Under current law, when the Internal Revenue Service (IRS) levies a federal payment to collect a delinquent tax debt under the Federal Payment Levy Program operated by FMS, the IRS pays a fee out of its annual appropriation to FMS to process the transaction. The budget proposes to instead have the debtor pay the transaction costs

FMS Performance by Budget Activity

Budget Activity	Performance Measure	FY 2004	FY 2005	FY 2006		FY 2007	FY 2008
		Actual	Actual	Actual	Target Met?	Target	Target
Payments	Percentage of paper check and Electronic Funds Transfer (EFT) payments made accurately and on time (%) (Oe)	100	100	100	✓	100	100
Collections	Percentage collected electronically of total dollar amount of Federal government receipts (%) (Oe)	81	79	79	✗	80	81
Debt Collection	Amount of delinquent debt collected through all available tools (Billions \$) (Ot)	3	3.25	3.34	✓	3.2	3.25
Government-wide Accounting and Reporting	Percentage of Governmentwide accounting reports issued accurately (%) (Oe)	100	100	100	✓	100	100
	Percentage of Governmentwide accounting reports issued timely (%) (E)	100	100	100	✓	100	100

Key: Oe - Outcome Measure, E - Efficiency Measure, Ot - Output/Workload Measure, and M - Management/Cust. Satisfaction

in addition to their original debt. This would allow the IRS to fully utilize the levy program, maximize revenue, and shift the cost of enforcement to delinquent tax debtors.

Description of Performance

Payments: In FY 2006, FMS issued over 964 million non-Defense payments, with a dollar value of approximately \$1.5 trillion. Seventy seven percent of these transactions are issued by Electronic Funds Transfer, an increase of one percent over FY 2005. Paper checks account for the remainder of disbursements. FMS continues to expand and market the use of electronic media to deliver federal payments, improve service to payment recipients, and reduce government program costs.

Collections: FMS collected approximately \$2.9 trillion in FY 2006 through a network of more than 9,000 financial institutions. It also manages the collection of federal revenues such as individual and corporate income tax deposits, customs duties, loan repayments, fines, and proceeds from leases. FMS establishes and implements collection policies, regulations, standards and procedures for the federal government. FMS develops and operates a variety of collection mechanisms and systems (e.g. Electronic Federal Tax Payment System (EFTPS), lockboxes, Treasury General Accounts, debit/credit cards, and Pay.gov) to meet program agency needs. The majority of the dollar amounts of FMS collections are made electronically; 79 percent for FY 2006. The Treasury is also collecting more payments to the government electronically; \$2.3 trillion in 2006 which represents about a 10 percent increase over

2005. In FY 2006, taxpayers paid \$1.9 trillion using EFTPS, up 16 percent from FY 2005, and the number of payments to the government rose 11 percent to 80.4 million. FMS continues to promote the use of technology in the collections process and assists agencies in converting collections from paper to electronic media.

Debt Collection: In FY 2006, FMS collected a record \$3.34 billion in delinquent debt, including \$1.59 billion in past due child support, \$1.23 billion in federal non-tax debt, and more than \$520 million in federal tax levies and state tax debt offsets. Debt referrals from creditor agencies were at 95 percent of eligible debt at the end of FY 2006. As a result of our continued improvements to the program, collections have steadily increased to more than \$27.7 billion since the enactment of the Debt Collection Improvement Act in 1996. In calendar year 2006, IRS referred an additional \$47 billion of tax debts for continuous levy, a 25 percent increase from calendar year 2005 for the same period.

Government-wide Accounting and Reporting: FMS issues 100 percent of its Government-wide accounting reports accurately and timely. For the third consecutive year, FMS released the Financial Report of the United States Government (FR) 75 days after the fiscal year-end, which is better than many private sector companies. To complement and support the accelerated release of the FR, Treasury continues to release the Monthly Treasury Statement (the monthly public source of budgetary results) on the eighth workday of each month. FMS established a new measure, "Unit cost to manage \$1 million of cash flow", which will begin in FY 2007.

